NORWALL GROUP INC.

ANNUAL REPORT

2003

Financial Highlights

(in thousands of Canadian dollars, except per share amounts)

Operations	12/27/03	12/28/02	12/29/01	12/30/00	12/25/99
Sales	$68,449	$84,308	$70,043	$73,722	$82,638
Gross Profit	17,616	27,201	20,781	23,373	25,464
Income Before Income Taxes	1,063	9,481	3,939	5,582	4,169
Net Income	(394)	5,593	5,268	3,632	3,457
EBITA	8,830	17,694	11,767	14,722	13,588
Debt To Equity Ratio	0.15:1	0.33:1	0.61:1	0.68:1	0.93:1
Interest Expense Coverage Ratio	19.71	19.62	6.85	7.05	4.39

Financial Position					
Working Capital	$20,121	$25,633	$28,680	$23,904	$24,235
Total assets	59,568	68,485	71,942	65,368	65,531
Total liabilities	15,668	24,437	33,602	32,338	36,169
Shareholder's equity	43,900	44,048	38,340	33,030	29,362
Working Capital Ratio	5.1:1	4.7:1	4.8:1	3.4:1	3.1:1

Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held on May 26, 2004, at 10:00 a.m., at the Marriott Courtyard (Toronto Airport), 231 Carlingview Drive, Toronto, Ontario, M9W 5E8

Annual Report

Additional copies of the 2003 Annual Report, maybe obtained from the Vice-president, Finance, Norwall Group Inc., 1055 Clark Blvd., Brampton, Ontario, L6T 3W4

President's Message

2003 was extremely challenging for the Corporation. Sales totalled $68.4 million, a decrease of 18.9% or $15.8 million, compared to sales of $84.3 million in 2002. There were two significant events which impacted our sales and earnings; first, an estimated 12% decline in the residential wallcovering industry in North America; and second, the dramatic devaluation of the U.S. dollar, the currency in which 89% of the Corporation's sales are recognized. The decline of $15.8 million in sales reflects an actual sales decline of $8.9 million or 10.7%, and a one time initial sale in 2002 of $3.0 million or 3.6%. The impact of foreign exchange of $6.4 million was offset by a foreign exchange hedging of $2.5 million. The sales decline resulted from a large reduction in contract printing and regular distribution network. On a positive note, mass merchants such as Lowe's, Sherwin-Williams and Wal-Mart showed an increase year over year.

In light of this decline in sales the Corporation proactively reduced administrative expenses and realigned manufacturing operations. Additionally during the year accounts receivable and inventory were lowered and reduced our debt by $8.2 million, thus significantly strengthening the balance sheet. The reduction in debt resulted in interest savings of $.5 million.

We are continuing to follow our strategy of focusing on mass merchants by pursuing new opportunities and adding to their product variety. The bankruptcy of North America's largest residential wallcovering company in December 2003 will afford Norwall the opportunity to aggressively pursue additional sales with a view to increasing market share in 2004. The Corporation continues to fight a winning battle under very difficult market conditions.

James J. Patton

JAMES J. PATTON

Vice-Chairman,
President and Chief Executive Officer

Management's Discussion and Analysis

Introduction

(all amounts are in millions of Canadian dollars unless otherwise stated)

The following Management's Discussion and Analysis ("MD & A") provides a review of important events, the results of operations of Norwall Group Inc. ("Norwall" or the "Corporation") for the year ended December 27, 2003, in comparison with those of the year ended December 28, 2002 and a review of the financial position of Norwall as at December 27, 2003. This MD & A should be read in conjunction with Norwall's audited financial statements for the year ended December 27, 2003 and accompanying notes.

This MD & A contains forward looking statements that reflect Norwall's current expectations concerning future results and events. These forward looking statements can be identified by the use of statements that include the phrases such as "believed", "expected", "anticipate", "intend", "foresee", "likely", "will" or other similar words or phrases. These forward looking statements involve certain risks and uncertainties, which could cause actual results to differ materially from future results expressed or inferred by such forward looking statements. Important factors that would affect those statements include, without limitation, those risks and uncertainties listed under the heading "Risk Management" below. Norwall considers the assumptions on which forward looking statements are based to be reasonable at the time they were prepared, but cautions the reader that these assumptions regarding future events, many of which are beyond the control of Norwall, may ultimately prove to be incorrect. In addition, Norwall does not assume any obligation to publicly update any previously issued forward looking statements.

Overview

Norwall is one of North America's largest manufacturers and distributors of quality residential wallpaper and borders. The Corporation sells vinyl-coated wallcoverings to retailers and distributors at retail price points in the low-to-mid market range.

The global residential wallcovering industry continues to experience double-digit market declines in sales, and the trend appears to be continuing in 2004. During this time frame Norwall continues to utilize its manufacturing expertise coupled with innovative studio productions to develop strategies to combat this market condition.

Overview of Consolidated Operations

It is estimated that the U.S. wallcovering sector declined by 3% in the fourth quarter and by 12% for all of 2003. This decline was reflected in Norwall's recent sales performance. The decline was further exacerbated by the negative effect of the strengthening in value of the Canadian relative to the United States dollar.

The loss in the fourth quarter was only slightly worse than the same quarter in 2002. This was despite the fact that sales declined by 21.5% to $13.5 million for 2003, from $17.2 million in 2002.

There are three significant factors in the sales decreasing by $15.9 million or 18.9% to $68.4 million in 2003 in comparison to $84.3 million in 2002. Those factors are as follows:

- Continued decline in the wallcovering industry lead to a decrease of 10.7% or $8.9 million year over year. This decline was due primarily to decreased volume from private label sales, mass merchants and our distributors.
- Appreciation of the Canadian dollar compared to the U.S. dollar lead to a decline of approximately $3.9 million or 4.7%. The impact of foreign exchange on sales was mitigated by the prudent use of foreign

exchange forward contracts, which acted as a hedge on a portion of the Corporation's U.S. dollar sales earned in Canada and benefited the Corporation by $2.4 million. The average rate used to translate Norwall's U.S. dollar sales and expenses to Canadian for the year was $1.4778, representing a 6.0% reduction from the rate of $1.5724 in 2002.

- In 2002 there was a one time initial sale to a mass merchant totaling $3.0 million dollars.

The breakdown of sales by currency and by geography was as follows:

	2003	%	2002	%
United States	61.1	89	74.8	89
Canada	6.2	9	8.2	10
Other	1.1	2	1.3	1
	68.4		84.3	

This table indicates that our principal currency is U.S. dollars and the principal source of sales was the United States. The U.S. market is principally driven by mass merchants and our own direct distribution.

Selected Financial Information

(in millions of dollars, except per share amounts)

	2003	2002	2001	2000	1999
Sales	68.4	84.3	70.0	73.7	82.6
Gross profit	17.6	27.2	20.8	23.4	25.5
Gross profit as a percentage of sales	25.7%	32.3%	29.7%	31.8%	30.9%
Administrative, selling and warehousing	14.8	16.6	15.8	15.9	17.7
Severance and termination payments	(0.3)				
Income from operations	2.5	10.6	5.0	7.5	7.8
Foreign exchange (loss) gain	(1.0)	(0.2)	0.6	0.2	(0.5)
Interest expense	(0.4)	(0.9)	(1.7)	(2.1)	(3.1)
Income before taxes	1.1	9.5	3.9	5.6	4.2
Provision for (recovery) of income taxes	1.5	3.9	(1.3)	2.0	0.7
Net income (loss) for the year	(0.4)	5.6	5.2	3.6	3.5
Basic Earnings (loss) per share	(0.06)	0.88	0.83	0.58	0.55
EBITDA[12]	8.8	17.7	11.8	14.7	13.6
Debt	6.5	14.7	23.5	22.5	27.4
Total assets	59.6	68.8	71.9	65.4	65.5

[1] Unaudited. See "Earnings Before Interest, Taxes, Depreciation and Amortization"

[2] 2003 the Corporation reclassified cylinder engraving costs to property, plant and equipment and related amortization. Accordingly, the 2003 amounts have been increased $1.6 million (2002 - $1.7, 2001 - $0.9, 2000 – $1.3, 1999 - $0.8) dollars respectively.

Selected Quarterly Financial Information (unaudited)
(in millions of dollars except per share amounts)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2003	2002	2003	2002	2003	2002	2003	2002
Sales	21.8	26.5	18.0	22.4	15.1	18.2	13.5	17.2
Gross profit	6.6	10.2	4.3	7.7	3.6	5.0	3.1	4.3
Net income (loss)	1.1	4.3	(0.2)	1.7	0.0	0.8	(1.3)	(1.2)
Working capital	(1.0)	3.1	6.6	4.8	3.9	5.9	3.5	1.9
EBITDA	4.0	7.9	2.2	4.3	2.1	2.9	0.5	2.6
Basic Earnings (loss) per share	0.17	0.68	(0.03)	0.26	0.0	0.12	(0.20)	(0.18)
Diluted earnings (loss) per share	0.17	0.67	(0.03)	0.25	0.0	0.12	(0.20)	(0.18)
Total assets	73.0	77.2	65.8	75.1	61.9	71.2	59.6	68.8

Gross Profit

Consolidated gross profit declined to $17.6 million (25.7%) from $27.2 million (32.2%) in 2002, or $9.6 million. As the Corporation's manufacturing costs are incurred in Canadian dollars and sales made are primarily in U.S. dollars, a strengthening Canadian dollar has a material impact on sales and profitability. Approximately $2.2 million of this decline is directly attributable to the strengthening of the Canadian dollar. The balance of the decline is due to reduced volume, which impacted upon both the gross margin and plant utilization.

Operating Expenses

Operating expenses declined to $14.8 million from $16.6 million in 2002, a decrease of $1.8 million, or 10.8%. Operating expenses as a percent of sales were 21.6% versus 19.7% in 2002. The depreciation of the U.S. dollar had the effect of reducing U.S. dollar expenses by $0.9 million. The reduction in actual operating expenses is net of measures taken to reduce expenses. If soft market conditions continue, the Corporation will consider further aggressive cost reductions in 2004.

Interest Expense

Interest declined by $0.5 million from 2002. The decline can be attributable to aggressive cash management which led to a reduction of debt of $8.2 million in 2003 as well as lower interest costs under a new banking agreement which was put in place in April of 2003.

Foreign Exchange

The foreign exchange loss increased to $1 million from $0.2 million in 2002. The foreign exchange loss resulted on translation of the Corporation's U.S. dollar monetary assets and monetary liabilities. Approximately $0.4 million of this loss was attributable to the strengthening of the Canadian dollar and its impact on the future tax asset.

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA")

EBITDA is presented because management believes that it is a widely used financial indicator of the Corporation's ability to service debt. EBITDA is not a recognized measure under Canadian generally accepted accounting principles ("GAAP") and should not be considered as an alternative to net earnings, consolidated cash flow from operations or any other measure of performance required by GAAP or as an indicator of the Corporation's operating performance. The Corporation's method of calculating EBITDA may differ from other companies and accordingly, the Corporation's EBITDA may not be comparable to measures used by other companies. EBITDA in 2003 was $8.8 million compared to $17.7 million in 2002. This decline is

attributable to the bottom line impact of the strengthening of the Canadian dollar of $1.3 million and the net effect of the decline in sales. For the 12 months ended December 27, 2003 and December 28, 2002, EBITDA was comprised of the following components:

	2003	2002
Net income (loss) for the year	(0.4)	5.6
Amortization	7.3	7.3
Interest	0.4	0.9
Income taxes	1.5	3.9
EBITDA	8.8	17.7

Income Before Income Taxes

Income before income taxes decreased to $1.1 million from $9.5 million in 2002, primarily due to lower sales, gross margins and the net impact of the strengthening of the Canadian dollar.

Income Taxes

The Corporation's income tax expense was $1.5 million for the year ended December 27, 2003 as compared to $3.9 million in the prior year. Based on combined statutory tax rates in Canada (of approximately 34%), expected tax expense would have been $0.4 million on income before tax of $1.1 million. Income tax expense of $1.5 million was higher than income before tax of $1.1 million because of non-deductible expenses and the cumulative impact of higher tax rates. Foreign currency translation losses, which were non-deductible, and higher foreign tax rates resulted in additional income tax expense of $0.6 million. The provincial government in Ontario reversed previously announced tax reductions resulting in a cumulative adjustment that increased future tax expense by $0.4 million.

Net Income

For the first time since 1997 there was a loss of ($0.4 million), as compared to net income of $5.6 million in 2002. The majority of this change can be accounted for by a reduction in gross margin of $9.6 million. Of this $9.6 million the strengthening of the Canadian dollar had a net negative impact of $2.2 million, and the lower sales led to a reduction in gross margin of $7.4 million (net of foreign exchange impact). Moreover, this reduction in gross margin was partially offset by lower operating expenses of $1.8 million, while the remaining difference was a result of interest and taxes.

Earnings/(Loss) Per Share

Earnings/(loss) per share was a loss of ($0.06) per share compared to earnings of $0.88 per share in 2002. On a diluted basis this would be ($0.06) per share compared to $0.86 per share in 2002.

Cash Flow From Operations

Cash flow from operations decreased to $13.0 million as compared to $15.7 million in 2002. The decline resulted primarily from a weakening in earnings which was partially offset by the change in working capital.

Management anticipates that cash flow from operations this year will provide sufficient liquidity for anticipated operations and investments in working capital and capital assets.

Asset Management

The Corporation's current assets declined by $7.8 million to $25.0 million for 2003 as compared to $32.8 million in 2002. As a result of the Corporation focusing its efforts, an $8.1 million reduction of accounts receivable and inventory was achieved.

- The reduction in accounts receivable was the result of the combination of aggressive cash management of $2.8 million, foreign exchange of $1.6 million and additional program support funds in the amount of $1.1 million.
- The reduction in inventory was primarily a result of the Corporation's efforts to reduce inventory levels in line with expected sales

The Corporation changed its estimate of the useful life of cylinder engraving from one year to three years. The Corporation now amortizes cylinder engraving costs over a three year period which more reasonably reflects the lives of the products related to these cylinder engravings. Consequently these cylinder engraving costs are classified as property, plant and equipment where previously they were classed as prepaid expenses. The December 27,

2003 property, plant and equipment balance includes cylinder engraving costs in the amount of $2.9 million. The 2002 year end cylinder engraving costs balance of $2.5 million has been reclassified to property, plant and equipment for comparative purposes.

Capital asset additions for the year were $3.1 million or 22.8% lower than the previous year. The decrease was attributable to lower expenditures on plant and equipment.

Investment in customer merchandising programs relate to marketing materials provided to customers. Expenditures in 2003 were $2.9 million, representing basically no change from the previous year.

In accordance with Canadian generally accepted accounting principles, goodwill is no longer amortized and will only be decreased if it has been determined that there is an impairment in value. Management believes that the goodwill recorded at year end is not impaired.

Bank Debt and Liquidity

Commencing April 2003, Norwall entered into a three year agreement - $20 million Canadian – formula based, committed revolving facility with a Canadian chartered bank which replaced the previous banking agreement the Corporation had with another Canadian chartered bank. Under this new agreement, Norwall pledged as collateral the accounts receivable and inventory, leaving fixed assets unencumbered for the first time since the Corporation went public in 1993. This achievement reflects the significant advances made by the Corporation to strengthen its balance sheet.

The revolving line of credit is open to repayment without penalty and is due in April of 2006.

Under the new facility the Corporation has the option to borrow in either U.S. or Canadian dollars. Interest rates under this agreement for the balance of the term are at U.S. prime less 0.75% for U.S. dollar denominated loans and at Canadian prime for Canadian dollar denominated loans.

Since the new facility is a three year agreement, Norwall's balance sheet reflects the bank indebtedness as a long term liability.

Financial Condition and Liquidity

	2003	2002
Debt (in millions $)	6.489	14.736
Debt to Equity	0.1478X	0.3345X
Debt to EBITDA	0.7349X	0.8328X
Interest coverage (EBITDA to interest expense)	19.71X	19.62X

Debt is defined as the current portion of long term debt plus long term debt.

Risk Management

The Corporation strives to manage certain risks in the normal course of its business as noted below:

A. Fluctuations in foreign exchange rates

As the Corporation has U.S. based operations and reports in Canadian dollars, it is exposed to foreign exchange fluctuations. Consistent with prior years, Norwall regularly reviews the foreign exchange markets with a view to protecting the Corporation from the risk of exchange rate fluctuations. Norwall has committed to contracts of USD $11 million at an average rate of $1.4414, with expiry dates through to June 2004. The purpose of these forward contracts is to fix the exchange rate on a portion of U.S. dollar denominated sales of the Canadian operation.

B. Dependency on Major Customers Based In the U.S. Marketplace

The Corporation generated 89% of its annual sales in 2003 in the United States, thereby placing great reliance upon the state of the U.S. economy. In light of the current geopolitical unrest and the economic uncertainty, the North American market outlook is cautious at best. Any significant economic event involving the United States could have a material impact on the Corporation's results in 2004. Norwall has three customers that as a group accounted for more than 45% of the Corporation's consolidated sales.

C. Commodity Prices

There have been no significant changes in the price of paper and management does not expect any material changes in 2004. However any material change in paper prices will have a material impact on the gross margins of the Corporation.

D. Environmental Risk

The Corporation's only manufacturing facility is located in the province of Ontario, Canada. Management is aware of current environmental legislation and ensures that operations comply with applicable regulations. The Corporation's capital budget provides funding deemed by management to be sufficient to meet regulatory requirements. However there is no assurance that such funding will be sufficient for these purposes.

New Accounting Standards

For Norwall's 2004 fiscal year, new rules relating to hedge accounting will become effective. These rules set out the conditions that must be met in order to apply hedge accounting. Any derivative financial instrument that does not qualify for hedge accounting will be accounted for on a mark-to-market basis. The impact of not applying hedge accounting is that gains or losses on a derivative financial instrument that is marked-to-market may not be recorded in the same accounting period as gains or losses on the hedged item. The Corporation expects to adopt hedge accounting under the new rules with respect to its foreign exchange forward contracts.

New standards dealing with Canadian generally accepted accounting principles ("GAAP"), financial statement presentation and revenue recognition will also be adopted in fiscal 2004. Under the new rules, "industry practice" no longer has a role in establishing GAAP. The revenue recognition rules harmonize Canadian GAAP with practice in the United States. The Corporation is currently reviewing the impact of these new rules on its financial reporting, however, it currently expects to make certain reclassification adjustments to revenue, cost of sales and administrative, selling and warehousing expenses.

Outlook

Demand for the Corporation's products is affected by general economic conditions influencing the level of consumer confidence. Reduced consumer spending on home improvements and a risk of higher interest rate and changes in new housing starts can have a material impact on the Corporation's bottom line. In addition, the demographic trends, such as the increasing age of the largest segment of the population, will also influence the market for the Corporation's products.

The Corporation expects the residential wallcovering industry in North America to continue to restructure, rationalize and consolidate. Norwall is confident that it is strategically positioned to take advantage of market opportunities as they occur.

The Corporation will continue its strategy of focusing on the mass merchant market where growth opportunities exist to expand market share. The corporation will also seek new opportunities as a result of its strong balance sheet. The Corporation will continue to focus on cost containment.

Management's Responsibility for Financial Reporting

Management is responsible for preparing the accompanying consolidated financial statements and for assessing their objectivity and integrity.

Management believes that the consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and fairly report the Corporation's financial position and results of operations.

The consolidated financial statements include amounts that are based upon estimates and judgements which management believes are reasonable under the circumstances. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP in accordance with Canadian generally accepted auditing standards, providing independent verification of management's presentation of the Corporation's financial position. Management has established the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded, and proper records are maintained. Norwall has an Audit Committee of which a majority of the members are neither officers nor employees of the Corporation. The Committee meets each quarter and has full and unrestricted access to the Corporation's auditors to ensure the integrity of management's financial reporting and adequacy of system of internal controls.

James J. Patton

JAMES J. PATTON
Vice-Chairman,
President and Chief Executive Officer

EDWARD DIOCHON
Vice President Finance
and Treasurer

Auditors' Report

TO THE SHAREHOLDERS OF NORWALL GROUP INC.

We have audited the consolidated balance sheets of Norwall Group Inc. as at December 27, 2003 and December 28, 2002 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 27, 2003 and December 28, 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS
Mississauga, Ontario
March 12, 2004

Consolidated Balance Sheets
(in thousands of Canadian dollars)

	December 27, 2003 $	December 28,2002 $
ASSETS		
Current assets		
Accounts receivable	8,916	14,462
Income taxes recoverable	183	-
Inventories (note 2)	13,304	15,515
Merchandising supplies	1,465	1,046
Prepaid expenses and other	1,167	1,446
	25,035	32,469
Property, plant and equipment (note 3)	24,748	25,293
Investment in customer merchandising programs (note 4)	5,992	6,404
Other assets	87	226
Future income taxes (note 5)	2,013	2,400
Goodwill	1,693	1,693
	59,568	68,485
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	4,914	4,504
Income taxes payable	-	1,332
Current portion of long-term debt (note 6)	-	1,000
	4,914	6,836
Long-term debt (note 6)	6,489	13,736
Future income taxes (note 5)	4,265	3,865
	15,668	24,437
SHAREHOLDERS' EQUITY		
Share capital (note 7)	32,342	32,096
Foreign currency translation adjustment	(97)	(97)
Retained earnings	11,655	12,049
	43,900	44,048
	59,568	68,485

Approved by the Board

James J. Patton

James J. Patton, Vice Chairman,
Chief Executive Officer

David M. Gee, Director

Consolidated Statements of Operations and Retained Earnings

(in thousands of Canadian dollars, except per share amounts)

	Year ended December 27, 2003 $	Year ended December 28, 2002 $
Sales	68,449	84,308
Cost of goods sold	50,833	57,107
Gross profit	17,616	27,201
Administrative, selling and warehousing expenses	(14,794)	(16,596)
Income before the undernoted	2,822	10,605
Severance and termination payments	(352)	-
Income from operations before the following items	2,470	10,605
Foreign exchange loss	(959)	(222)
Interest expense	(448)	(902)
Income before income taxes	1,063	9,481
Provision for income taxes (note 5)	1,457	3,888
Net (loss) income for the year	(394)	5,593
Retained earnings - Beginning of year	12,049	6,456
Retained earnings - End of year	11,655	12,049
Net (loss) income per common share		
Basic	(0.06)	0.88
Diluted	(0.06)	0.86
Weighted average number of common shares outstanding	6,406,887	6,355,840

Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

	Year ended December 27, 2003 $	Year ended December 28, 2002 $
Cash provided by (used in)		
Operating activities		
Net (loss) income for the year	(394)	5,593
Items not affecting cash		
Amortization	7,319	7,311
Future income tax provision	400	2,198
Write-off of other assets	139	-
Unrealized foreign exchange loss	197	84
Changes in non-cash operating working capital (note 8)	5,334	529
	12,995	15,715
Investing activities		
Additions to property, plant and equipment - net	(3,142)	(4,070)
Investment in customer merchandising programs	(2,896)	(2,998)
	(6,038)	(7,068)
Financing activities		
Issuance of share capital	246	115
Repayment of long-term debt	(7,203)	(8,696)
Increase in other assets	-	(66)
	(6,957)	(8,647)
Decrease in cash during the year	-	-
Cash - Beginning of year	-	-
Cash - End of year	-	-
Supplementary information		
Income taxes paid	2,998	389
Interest paid	394	966

Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements
December 27, 2003 and December 28, 2002
(in thousands of Canadian dollars, except per share amounts)

1 Summary of significant accounting policies

Basis of financial presentation

The consolidated financial statements include the accounts of the company and its wholly owned subsidiary companies:

- Norwall Holdings, Inc., and
- Patton Wallcoverings Inc., a wholly owned subsidiary of Norwall Holdings, Inc.

The year-end of the company is the last Saturday in December.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

Inventories

Finished goods inventories are valued at the lower of cost and net realizable value. Work-in-process, raw materials and supplies are valued at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis.

Property, plant and equipment

Property, plant and equipment are recorded at the lower of cost, less amortization, and net recoverable amount. Amortization is provided using the straight-line method to reflect the following estimated useful lives:

Buildings and improvements	10 to 40 years
Machinery and equipment	5 to 29 years
Furniture and fixtures	5 to 8 years
Computers	3 years
Cylinder engraving costs	3 years

Investment in customer merchandising programs

Investment in customer merchandising programs is recorded at the lower of cost and net recoverable amount, and represents costs associated with providing point of sale material to retailers in the distribution business, which are amortized to cost of sales over the expected useful lives, generally three to four years.

Certain up front incentive payments to customers are deferred and amortized to cost of sales over a maximum of one year based on the expected sales volumes to be achieved.

Deferred financing charges

Costs of obtaining long-term financing are amortized over the terms of the related debt.

Goodwill

In 2002, the company adopted Section 3062 of The Canadian Institute of Chartered Accountants' handbook entitled "Goodwill and Other Intangible Assets". Under the new standard, the company no longer amortizes goodwill. Instead, goodwill is subject to an annual impairment test, or more frequently, if events or circumstances indicate goodwill may be impaired. An impairment charge is recognized when the estimated fair value of goodwill is lower than carrying amounts. No provision for impairment was required upon adoption of this new standard.

Financial instruments

Realized gains and losses on foreign exchange forward contracts that hedge anticipated revenues are included in income when the revenue is earned. Unless otherwise indicated, the fair values of financial instruments, such as accounts receivable, accounts payable and accrued liabilities and long-term debt, approximate their carrying values.

Translation of foreign currencies

All of the company's United States subsidiaries are integrated foreign operations. Monetary assets and liabilities are translated into Canadian currency at year-end exchange rates. Non-monetary assets and liabilities are translated at historical exchange rates. The income statements of the

Notes to Consolidated Financial Statements
December 27, 2003 and December 28, 2002
(in thousands of Canadian dollars, except per share amounts)

1 Summary of significant accounting policies (con't)

integrated subsidiaries are translated at average exchange rates prevailing during the years. Exchange gains and losses arising from translation are included in the statements of operations.

Foreign currency denominated monetary assets and liabilities of domestic operations are translated into Canadian currency at year-end exchange rates, and transactions included in income are translated at rates prevailing during the years. Exchange gains and losses on transactions are included in the statements of operations.

Future income taxes

The company uses the liability method of accounting for income taxes. Under the liability method, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets or liabilities are expected to be realized or settled. A valuation allowance is provided to the extent that management believes it is more likely than not that future income tax assets will not be realized.

Stock-based compensation

The company has a stock-based compensation plan, which is described in note 7. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

Effective December 30, 2001, the company adopted the new recommendations of The Canadian Institute of Chartered Accountants for Stock-Based Compensation and Other Stock-Based Payments. The new recommendations require where fair value accounting has not been used to account for employee stock options, companies are required to disclose pro forma net income and earnings per share as if the fair value method had been used for options issued starting in fiscal 2002. As no options were granted during 2003 or 2002, no pro forma disclosures are provided.

Earnings per share

Basic earnings per share are calculated based on the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method. Diluted loss per common share for the year ended December 27, 2003 has been calculated using a denominator of 6,406,887 shares (year ended December 28, 2002 - 6,504,141 shares), which includes the dilutive effect of all outstanding common share options described in note 7.

2 Inventories

	December 27, 2003 $	December 28, 2002 $
Finished goods	12,068	14,585
Work-in-process	510	189
Raw materials	726	741
	13,304	15,515

Notes to Consolidated Financial Statements
December 27, 2003 and December 28, 2002
(in thousands of Canadian dollars, except on share amounts)

3 Property, plant and equipment

	December 27, 2003 $	December 28, 2002 $
Cost		
Land	3,788	3,788
Buildings and improvements	7,604	7,175
Machinery and equipment	32,616	32,059
Furniture and fixtures	1,448	1,017
Cylinder engraving costs	6,254	4,226
	51,710	48,265
Less: Accumulated amortization		
Buildings and improvements	3,423	2,773
Machinery and equipment	19,003	17,614
Furniture and fixtures	1,205	884
Cylinder engraving costs	3,331	1,701
	26,962	22,972
	24,748	25,293

In 2003, after reviewing the estimated useful lives of its cylinder engravings, the company extended the useful lives from 18 months to 3 years and reclassified these assets to property, plant and equipment. Prior year comparatives have also been reclassified to conform to this presentation. This change in estimate resulted in a reduction in pre-tax expenses of $206 in fiscal 2003.

4 Investment in customer merchandising programs

	2003 $	2002 $
Opening balance	6,404	6,888
Additions	2,896	2,998
Amortization	(3,308)	(3,482)
Ending balance	5,992	6,404

Notes to Consolidated Financial Statements
December 27, 2003 and December 28, 2002
(in thousands of Canadian dollars, except per share amounts)

5 Income taxes

Income tax expense differs from the amounts, which would be obtained by applying the combined Canadian basic federal and provincial income tax rates, after the manufacturing and processing deduction, of approximately 34% (2002 - 33%) to income before income taxes. These differences result from the following:

	Year ended December 27, 2003 $	Year ended December 28, 2002 $
Provision for income taxes based on Canadian federal and provincial combined statutory rates	361	3,128
Valuation allowance reversal	-	(1,000)
Foreign income and non-deductible foreign exchange	671	160
Change in income tax rates	425	400
Adjustments to prior tax filings and income tax reassessment	-	1,200
	1,457	3,888
Provision for income taxes		
Current	1,057	1,690
Future	400	2,198
	1,457	3,888

Significant components of the future income tax balances are as follows:

	December 27, 2003 $	December 28, 2002 $
Future income tax asset - U.S. operations		
Operating tax losses carried forward expiring starting in 2011	3,000	3,350
Investment in customer merchandising programs	(1,800)	(2,100)
Other temporary differences	813	1,150
	2,013	2,400

	December 27, 2003 $	December 28, 2002 $
Future income tax liabilities - Canadian operations		
Depreciable property, plant and equipment	4,033	3,799
Other temporary differences	232	66
	4,265	3,865

Notes to Consolidated Financial Statements
December 27, 2003 and December 28, 2002
(in thousands of Canadian dollars, except on share amounts)

6 Long-term debt

	December 27, 2003	December 28, 2002
	$	$
Bank revolving loan secured by inventories and accounts receivable, bearing interest at prime rate per annum (2002 - Canadian prime plus 0.75% per annum) or U.S. prime rate less 1/2% on U.S. dollar borrowings (2002 - U.S. prime)	6,489	10,320
Bank term loans secured on all assets, bearing interest at prime rate plus 1% per annum	-	4,416
	6,489	14,736
Less: Portion due within one year	-	1,000
	6,489	13,736

On April 10, 2003, the company signed a three-year operating loan agreement, which replaced the existing operating loan agreement with a former lender. Under the new agreement, interest is charged on Canadian dollar denominated debt at the prime rate and on U.S. dollar denominated debt at prime less 1/2 of 1%, decreasing to prime less 3/4 of 1% for years two and three of the agreement, subject to meeting certain financial covenants. The company has classified the bank debt as long-term debt at December 27, 2003 based upon the terms of the agreement. As of December 27, 2003, the company has $4,264 of U.S. dollar denominated debt outstanding.

7 Share capital

Authorized

Unlimited number of Class A, non-voting, preference shares, redeemable and retractable at an amount of $1,000 per share with a non-cumulative annual dividend of up to $80 per share

Unlimited number of Class B, non-voting, preference shares, redeemable and retractable at an amount of $100 per share with a non-cumulative annual dividend of up to $8 per share

Unlimited number of Class C, voting, preference shares, redeemable at an amount of $1 per share

Unlimited number of common shares

Issued

	December 27, 2003	December 28, 2002
	$	$
6,489,936 (2002 - 6,386,936) common shares	32,342	32,096

Notes to Consolidated Financial Statements
December 27, 2003 and December 28, 2002
(in thousands of Canadian dollars, except per share amounts)

7 Share capital (con't)

The company has a fixed stock option plan. Options are granted to certain employees at the discretion of the Board of Directors and a maximum of 254,000 (2002 - 254,000) shares have been reserved for future issuance under the plan excluding common share options outstanding at the end of the year. The exercise price of each option equals the market price of the company's stock on the date of grant and an option's maximum term is ten years. Generally, options vest in the year they are granted.

The following table summarizes the activity over the past two years for options issued to date:

	Year ended December 27, 2003		Year ended December 28, 2002	
	Shares	Weighted average exercise price $	Shares	Weighted average exercise price $
Number of common share options outstanding - Beginning of year	176,000	2.43	226,000	2.40
Common share options exercised	(103,000)	2.39	(50,000)	2.29
Number of common share options outstanding - End of year	73,000	2.48	176,000	2.43

The following table summarizes information about stock options outstanding at December 27, 2003:

Exercise price $	Weighted average remaining contractual life	Number outstanding and exercisable at December 27, 2003
1.60	4.5 years	15,000
2.00	4.5 years	10,000
2.85	5.5 years	48,000
		73,000

Notes to Consolidated Financial Statements
December 27, 2003 and December 28, 2002
(in thousands of Canadian dollars, except on share amounts)

8 Changes in non-cash operating working capital

	Year ended December 27, 2003 $	Year ended December 28, 2002 $
Accounts receivable	3,906	243
Income taxes recoverable	(183)	-
Inventories	2,369	367
Merchandising supplies	(419)	893
Prepaid expenses and other	279	(571)
Accounts payable and accrued liabilities	714	(1,704)
Income taxes payable	(1,332)	1,301
	5,334	529

During the year, the company acquired $324,000 in cylinder engravings and $158,000 in inventory in exchange for the settlement of a trade account receivable.

9 Financial instruments

The company is subject to foreign exchange exposures arising from its foreign currency denominated sales, which are primarily in U.S. dollars. The company manages this risk by buying foreign exchange forward contracts. At December 27, 2003, foreign exchange forward contracts with expiry dates through to June 2004 were outstanding for the sale of US$11,000 (2002 - US$22,500) at an average rate of CAN$1.00 = US$1.4414. At December 27, 2003, the company would have received $1,381 on the termination of these contracts. (2002 - the company would have received $147 to terminate its foreign exchange forward contracts.)

10 Related party transactions

At December 27, 2003, an officer, who is also a director, owns 20.5% (2002 - 20.8%) of the issued and outstanding common shares.

The company entered into the following transactions with a director or companies under his control. These transactions were recorded at exchange amounts which is the consideration agreed to by the parties:

	Year ended December 27, 2003 $	Year ended December 28, 2002 $
Rental of buildings	415	463

11 Contingent liabilities and commitments

The company is a defendant with respect to certain legal and other actions. The company's management and solicitors are vigorously defending these actions. Management believes that there will be no material liability in connection with these actions.

At December 27, 2003, the company had a commitment under an operating lease, which requires minimum rental payments of $414 in 2004.

Notes to Consolidated Financial Statements
December 27, 2003 and December 28, 2002
(in thousands of Canadian dollars, except per share amounts)

12 Segmented information

Management operates the company as an integrated entity with one operating segment. Geographic information is outlined below:

	Sales $	Amortization $	Income (loss) from operations before the following items $	Property, plant and equipment and goodwill $	Additions to property, plant and equipment $
Year ended December 27, 2003					
Canada	42,583	4,294	3,905	24,458	2,976
United States	38,605	3,025	(869)	1,983	166
Intercompany eliminations	(12,739)	-	(566)	-	-
	68,449	7,319	2,470	26,441	3,142
Year ended December 28, 2002					
Canada	51,475	4,178	6,568	25,025	3,982
United States	50,054	3,133	4,407	1,961	88
Intercompany eliminations	(17,221)	-	(370)	-	-
	84,308	7,311	10,605	26,986	4,070

For the year ended December 27, 2003, sales in the U.S. included products manufactured in the company's Canadian plant amounting to $18,127 (2002 - $22,676). The Canadian operations include export sales of $24,940 and $25,571 for the years ended December 27, 2003 and December 28, 2002, respectively.

The company's sales to three major customers each accounted for approximately 15% of total sales in 2003 (2002 - three customers at 16%, 13% and 10%, respectively).

13 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

Board of Directores

Donald M. Reid
CHAIRMAN, INDEPENDENT CONSULTANT TO
THE FINE PAPER INDUSTRY

James J. Patton
VICE-CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

David M. Gee
PRESIDENT
MARSULEX INC.

William McIntosh
PRESIDENT
TIMBERLAND CANADA CO.

Leslie A. McMichael
PRESIDENT,
DECWALL SERVICES INC.

Corporate Officers

Donald M. Reid
CHAIRMAN

James J. Patton
VICE-CHAIRMAN, PRESIDENT AND
CHIEF EXECUTIVE OFFICER

Edward G. Diochon
VICE-PRESIDENT, FINANCE & TREASURER

Peter J. Walmsley
VICE-PRESIDENT, HUMAN RESOURCES
AND CORPORATE SECRETARY

Wholly-Owned Subsidiaries

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1106 Ridge Street
Columbus, Ohio 43215

Patton Wallcoverings, Inc.
1106 Ridge Street
Columbus, Ohio 43215

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Auditors
PricewaterhouseCoopers LLP

Banker
Comerica Bank, Canada Branch

Legal Counsel
Fogler, Rubinoff

Stock Exchange Information

Toronto Stock Exchange
Market Symbol: NGI

Norwall Group Inc.